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Dear Guiseppina

Review of Future Trading Arrangements

Thank you for the opportunity to comment on the proposed process to review future trading arrangements

The UK Demand Response Association (UKDRA) was established last year to represent the Demand Response industry participating in the UK with one voice on the subjects of developing and overseeing policies, strategies, objectives and plans for demand response and peak reduction programs and incentives. It is the mission of the Association to help develop technical standards and policy recommendations that allow demand response resources to participate in the energy and wholesale markets.

UKDRA members already manage hundreds of megawatts of demand side response capability, comprising both load management and the use of behind the meter generation by industrial and commercial customers. This is used to provide services to National Grid, such as Short Term Operating Reserve (STOR) and Frequency Response, manage transmission charge reductions for customers and contribute to Low Carbon Network Fund projects.

The UKDRA strongly supports the proposed project and looks forward to contributing to the process. At present, demand-side response cannot directly participate in the electricity market, but has to seek access via suppliers, who will have different objectives and are likely to dilute the opportunity for any individual DSR provider by treating the resource as part of a wider portfolio.

Modifying the trading arrangements has the potential to enable the demand-side to demonstrate its preferences, particularly the price at which it is willing to deliberately adjust its consumption from the grid. Fundamentally, encouraging demand side response increases the elasticity of demand and within an appropriate framework could have a significant impact on



electricity trading, contributing to security of supply, efficient system balancing and managing the costs of achieving the low carbon economy.

We believe that the general issues set out in Annex 2 to the letter provide a suitable framework for considering the changes that will be needed. We would suggest that the project needs to consider in some depth the routes by which DSR, and other nascent technologies, will come to the market. Demand-side assets are often able to provide a relatively rapid response (usually within a few minutes) that could have value to suppliers, generators (both intermittent and those with longer response times) and the local and national system operators. Under the current arrangements, however, demand-side response is only used to any significant extent by National Grid and procured under arrangements that place significant commercial risks with potential providers. Developing arrangements that enable all the potential users of demand-side response to express the value they place on the resource will encourage potential providers to release the latent capability that already exists.

The approach and process laid out in the letter seems to provide a suitable structure for developing the new arrangements and we will play as full a part as we can in supporting working groups and workshops. However, many DSR providers are either relatively small businesses, or are businesses whose primary activity is the creation of goods or services other than electricity. Accordingly, we would suggest that Ofgem needs to ensure that suitable communication channels are in place; e.g. using the Demand Side Working Group, and that mechanisms are adopted to facilitate the engagement of DSR and other non-traditional providers. A possible model to employ is the support provided to smaller users of the major network codes by the code administrators.

Yours sincerely

Arthur Probert
on behalf of the UK Demand Response Association